



Committee and date

Audit Committee

25 November 2010

10.00 am

Item No

**5**

Public

## **FOLLOW UP REPORT REVIEWING THE AUDIT COMMISSION'S ANNUAL GOVERNANCE REPORT 2009/10, RECOMMENDATION 5**

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### **Summary**

As requested by the Audit Committee at its meeting on 16 September, Internal Audit have reviewed the recommendation made by the Audit Commission in its Annual Governance Report 2009/10 that stated, "The Council should review its procedures for raising sales invoices and ensure that a control is established which can confirm the completeness of recording of income."

Details of the review are set out in the report but in conclusion Members are asked to reject the recommendation made on the basis that testing is routinely performed by Internal Audit; the cost of introduction would outweigh the benefits; and it is unlikely to result in any saving on External Audit fees.

### **Recommendations**

Members are asked to note:

A The details of the Internal Audit review.

Members are asked to reject:

B Recommendation 5 in the Audit Commission's Annual Governance Report 2009/10.

### **Report**

1. The Audit Committee received the Audit Commission's Annual Governance Report 2009/10 at its meeting on 16 September 2010. The report included five recommendations, which were considered individually at the meeting. In respect of Recommendation 5, Members resolved that the Council should review its procedures for raising sales invoices and explore whether a control be established which could confirm the completeness of recording of income.
2. The Audit Commission report included the following comments and recommendation in relation to its review of the Internal Control Environment

(paragraph 25 of the report): “My review of the systems for raising sales ledger invoices identified that there is no formal system operating which ensures that if a sale is made (or service provided), an invoice is raised and issued. Whilst the likelihood of a material misstatement arising from this is low I have undertaken additional audit procedures to formally satisfy myself. Under auditing standards I am required to bring to your attention opportunities to improve the Council's control environment and the efficiency of my audit. It would therefore be good practice to introduce a control which is consistent across all departments. This could be in the form of a sequentially numbered sales requisition against which an audit trail would exist. This would ensure that assurance was gained that all income was complete and sums due to the council were properly recorded”. Recommendation 5: “The Council should review its procedures for raising sales invoices and ensure that a control is established which can confirm the completeness of recording of income.”

3. Members will also recall that the presentation of the report at the meeting on 16 September was the first opportunity for this issue to be raised, and the Audit Commission Manager advised Members that the findings were not a major concern and that, had this control been in place, it would have saved a couple of days testing and given additional assurance.
4. In order to evaluate the advantages and disadvantages of introducing the suggested system, further discussion took place with the Audit Commission, Internal Audit files were referred to, the matter was discussed with the Income Manager and a sample of Auditors in the Midland Counties Chief Internal Audit Group were consulted to see whether they had any similar systems in operation.
5. In discussion with the Audit Commission Auditor who performed the testing, it was confirmed that no exceptions were found from their testing, but that the establishment of the proposed control would have saved them some time, this is reflected in the minutes of the last meeting.
6. The Annual Internal Audit Plan incorporates a range of activity across the Council, which includes visits to various establishments and service areas. As part of our testing on income due to these areas, Internal Audit perform testing on the collection of income. Where this includes the raising of sales invoices, testing will include the identification of income due, from the provision of goods or services, through to the invoicing, payment and allocation of the payment in the ledger. Additional testing on invoices raised by the Debtors team concentrates on the timely and accurate production of invoices. Whilst there are occasions during this testing where weaknesses may be identified, we have never felt it necessary to introduce requisitions to improve the processes and internal controls that are already in place.
7. The Income Manager advised that invoices are created in a number of ways, depending upon the type of service provision and scale of operation. Examples include care invoices raised through an interface with CareFirst, direct on-line input in directorates, and through the SAMIS Contracts Module. The number of invoices that are raised each year is approximately 46,000 of which less than 5% (approximately 1,600) are generated by the Debtors team. There is a pro-forma requisition in place which is used to notify the Debtors team of invoices

required, but these are primarily used by officers who do not have internet access, and so the volume of these in a year is very low. The Income Manager also advised that the Council has a wide range of small volume users who may use these forms, but more commonly use email to notify the Debtors team instead.

8. Discussion with colleagues in four neighbouring authorities confirmed that they operate in a very similar way to Shropshire and that none use the sequentially numbered requisitions suggested in Recommendation 5.
9. To summarise, the advantages and disadvantages of implementing this recommendation are as follows:

Advantages:

- Saves some time for the Audit Commission.
- Provides an additional link in the audit trail to prime documents, saving a very small amount of review time.

Disadvantages:

- Creates an additional task to officers in completing the requisition. Often this will merely duplicate what they enter directly on line or onto interface systems. As no exceptions were found from the Audit Commission testing or from Internal Audit testing in the year, the value of this process is questionable.
- There would be costs of producing the stationery, distribution, training, security and reconciliation of stocks; these are set out in financial implications.
- Does not give any additional assurance that all costs are invoiced. Failure to complete a formal requisition is the same as the risk of failing to request a requisition by other means.
- Correct and accurate completion needs to be monitored. This can be done with existing procedures, for example budget monitoring which provides an effective compensating control.
- Additional audit testing still required on requisitions for compliance.
- The current system is streamlined to minimise delays in raising invoices. An additional task as suggested could create delays in the raising of invoices.
- As stated by the Audit Commission, the likelihood of a material misstatement arising is low.

10. The Council is currently considering enhancing the on line capability in respect of its accounting system and will consider an automated solution to the point raised by the Audit Commission in doing this.

### **Financial Implications**

11. Costings have been obtained from the Print Unit for the production of sequentially numbered, two part pads in books of 100. The cost for these is £917 for 100 pads or more. This equates to 9.17p per requisition. On the basis that we raise some 46,000 invoices in a year, this would cost over £4,200 per annum in stationery alone. However, the first year cost would be far higher than this as each establishment/service area would require a pad at the onset.

12. Additional costs in terms of distribution, the introduction of secure storage, officers time in issuing and reconciling books, management time in reviewing usage, and training of staff would be time consuming to calculate, but would be substantial in view of the dispersed nature of service providers across the county.
13. Whilst the Audit Commission Manager advised Members that the existence of the control would have saved them some time, in discussion with the Audit Commission Manager it has been confirmed that it is highly unlikely that this would have any impact upon the fees that are charged to the Council. There would therefore be no compensating saving.
14. Any costs in relation to an enhanced on line accounting system are yet to be explored.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006 (CIPFA)

**Human Rights Act Appraisal**

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

**Environmental Appraisal**

N/A

**Risk Management Appraisal**

An Audit Committee has a key function in ensuring and maintaining effective corporate governance arrangements are in place in the Council. The Audit Strategy provides evidence of such arrangements.

**Community / Consultations Appraisal**

N/A

**Cabinet Member**

Keith Barrow, Leader of the Council (Brian Williams, Chairman of Audit Committee)

**Local Member**

N/A

**Appendices**

N/A